

BYLAWS

of

Davidson Water, Inc.

ARTICLE I

General Purposes

The purposes for which this corporation is formed and the powers which it may exercise are set forth in the articles of incorporation of the corporation.

ARTICLE II

Name and Location

Section 1. The name of this corporation is Davidson Water, Inc.

Section 2. The principal office of this corporation shall be located in the County of Davidson, State of North Carolina.

ARTICLE III

Seal

Section 1. The seal of the corporation shall have inscribed thereon the following: "Corporation Not For Profit, Davidson Water, Inc."

Section 2. The secretary of the corporation shall have custody of the seal.

Section 3. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or otherwise reproduced.

ARTICLE IV

Fiscal Year

The fiscal year of the corporation shall begin the 1st day of October in each year.

ARTICLE V

Membership

Section 1. Every person (which word as used herein includes any legal entity) who is a record owner of a fee or

undivided fee interest, or having a substantial possessory interest, in a property served by the water system may become a member of the corporation upon signing such applications and agreements for the purchase of water as may be provided and required by the corporation and upon the payment of such connection fee as may be imposed by the board of directors provided that only one membership at a time may be held for each connection served. A single membership may be issued to all persons owning or having a substantial possessory interest in the property. The board of directors shall cause to be issued appropriate certificates of membership, provided that membership shall not be denied because of the applicant's race, color, creed, or national origin. Membership may be denied if capacity of the corporation's water system is exhausted by the need of its existing members, or, if the proposed use of the applicant is such that it would interfere with existing uses previously authorized by the board of directors.

A substantial possessory interest is one where the person or persons have a legal right to control and occupancy of a property but do not have the legal or the equitable ownership of the property. It may be under a lease or similar right to possession.

(1) Before membership is allowed to two or more persons claiming such an interest, the corporation will endeavor to obtain the application for membership from the owner of such property.

(2) Where membership is granted to one or more persons having a substantial possessory interest, the corporation as a condition to the membership may require such applicant to post such collateral or bond as the directors determine necessary to fully protect the corporation from any additional risk that may be involved to the corporation by reason of the lack of legal ownership in the applicant.

Section 1a. Membership will be limited to those who obtain the organization's services, acquire a tangible interest in its assets in proportion to the business done with the organization and have a voice in its management.

Section 2. Each membership certificate shall represent one vote. When more than one person holds the interest in a property served, the vote shall be exercised by the person in whose name the certificate is registered or by such persons as the several persons may designate, but in no event shall more than one vote be cast with respect to any connection.

Section 3. The termination of the membership of any member shall not disqualify for membership any other person who has or obtains an interest in the property of the terminated member and who otherwise meets the requirements of these bylaws.

Section 3a. Termination of membership will not result in forfeiture of the former member's rights and interest in the organization's assets and he will not be precluded from receiving his proportionate share of any subsequent distribution of such assets by the organization.

Section 4. Upon the termination of a membership, the corporation will not look to the successor in interest for the payment of any past due amounts. The corporation will seek collection only from the individual who incurred such charges or assessments or from the property itself if a judgment lien had been duly perfected against such property.

ARTICLE VI

Membership Certificates

Section 1. This corporation shall not have capital stock. Membership in the corporation shall be represented by membership certificates. Such certificates shall represent the right to use and enjoy the benefits of the corporation's water supply system upon the payment of necessary assessments, if any, and of reasonable charges based upon such use, provided such use and enjoyment are consistent with the rules, regulations, and contracts affecting the same as may from time to time be prescribed by the board of directors.

Section 2. A membership certificate shall be issued to each holder of fully paid membership, numbered consecutively in accordance with the order of issue, and bear on its face the following statements:

This membership certificate, No. _____, is issued and accepted in accordance with and subject to the conditions and restrictions stipulated in the articles of incorporation and bylaws and amendments to the same of the Davidson Water, Inc.

ARTICLE VII

Meetings of Members

Section 1. The annual meeting of the members of this corporation shall be held in Davidson County, North Carolina, at 7:30 o'clock P.M., on the second Monday in March of each year,

if not a legal holiday, or if a legal holiday on the next business day following.

Section 2. Special meetings of the members may be called at any time by the action of the board of directors, and such meetings must be called whenever a petition requesting such meeting is signed by at least ten percent of the members and presented to the secretary or to the board of directors. The purpose of every special meeting shall be stated in the notice thereof, and no business shall be transacted thereat except such as is specified in the notice.

Section 3. Notice of meetings of members of the corporation, both regular and special, shall be given by notice mailed to each member of record, directed to the address shown upon the books of the corporation, not less than thirty (30) nor more than sixty (60) days prior to such meeting. Such a notice shall state the nature, time, place, and purpose of the meeting; but no failure or irregularity of notice of any annual meeting, regularly held, shall affect any proceedings taken thereat.

Section 4. The presence at a meeting of members entitled to cast in their own right or by proxy 3 per cent of the total number of votes shall constitute a quorum. All proxies shall be in writing and filed with the secretary. Such proxies may be general or restrictive. Proxies shall be revocable and shall not be valid beyond 11 months, nor after termination of the membership by cessation of the member's interest in the property.

Section 5. Directors of this corporation shall be elected at the annual meeting of the members as provided in Article VIII, Section 1. No cumulative voting shall be allowed.

Section 6. The order of business at the regular meetings and so far as possible at all other meetings shall be:

1. Calling to order and proof of quorum
2. Proof of notice of meeting
3. Reading and action on any unapproved minutes
4. Reports of officers and committees
5. Election of directors
6. Unfinished business

7. New business

8. Adjournment

ARTICLE VIII

Directors and Officers

Section 1. The board of directors of this corporation shall consist of 15 members, all of whom shall be members of the corporation. The directors named in the articles of incorporation shall serve until the first annual meeting of the members and until their successors are elected and have qualified. At the first annual meeting of the members, 5 directors shall be elected for a term of one year; 5 directors for a term of two years; and 5 directors for a term of three years. At each annual meeting thereafter, the members shall elect for a term of three years the number of directors whose terms of office have expired. Each director shall hold office for the term for which he is elected and until his successor shall have been elected and qualified. Directors shall not serve after attaining seventy (70) years of age; however, directors who become seventy (70) years of age during a term may complete the term.

Section 2. The board of directors shall meet within ten (10) days after the annual election of directors and shall elect a president, vice-president, secretary and treasurer from among themselves, each of whom shall hold office until the next annual meeting and until the election and qualification of his successor unless sooner removed by death, resignation, or for cause.

Section 3. If the office of any director becomes vacant by reason of death, resignation, retirement, disqualification, or otherwise, except by removal from office, a majority of the remaining directors, provided the remaining directors constitute a quorum shall, by a majority vote, choose a successor who shall hold office until the next regular meeting of the members of the corporation, at which time the members shall elect a director for the unexpired term or terms, provided that in the call of such regular meeting a notice of such election shall given. If the remaining directors do not constitute a quorum, the remaining directors or in the event of no remaining directors, the manager, shall call a special meeting of the members within forty five (45) days of the vacancy, and at such meeting, the members shall elect a director for the unexpired term or terms,

provided that the purpose of the meeting is stated in the notice.

Section 4. A majority of the board of directors shall constitute a quorum at any meeting of the board. The affirmative vote of the majority of the directors at a meeting at which a quorum is present shall be the act of the board.

Section 5. Officers and directors may be removed from office in the following manner: Any member, officer, or director may present charges against a director or officer by filing them in writing with the secretary of the corporation. If presented by a member, the charges must be accompanied by a petition signed by ten percent of the members of the corporation. Such removal shall be voted on at the next regular or special meeting of the members and shall be effective if approved by a vote of a majority of those voting if a quorum is present. The director or officer against whom such charges have been presented shall be informed, in writing, of such charges at least twenty days prior to the meeting, and shall have the opportunity at such meeting to be heard in person or by counsel and to present witnesses; and the person or persons presenting such charges against him shall have the same opportunity. If the removal of a director is approved, such action shall also vacate any other office held by the removed director in the corporation. A vacancy in the board thus created shall immediately be filled by a vote of a majority of the members present and voting at such meeting. A vacancy in any office thus created shall be filled by the board of directors from among their number so constituted after the vacancy in the board has been filled.

Section 6: If a director is absent from more than five meetings of the Board of Directors during a period of twelve consecutive months, the president or the vice president in the event the president is the absentee shall declare the office of the director vacant. If the president or the vice president in the event the president is the absentee determines that the director was absent from more than five meetings during a period of twelve consecutive months, as a result of physical disabilities, the office of the director shall not be declared vacant. If a vacancy is declared pursuant to this section, the office of director shall be filled as provided in Article VIII, Section 3. If the office of any director is declared vacant pursuant to this section, such declaration shall also vacate any other office held by the removed director in the corporation. A vacancy in any office thus created shall be filled by the Board of Directors after the vacancy in the board has been filled.

AMENDMENT TO BYLAWS OF DAVIDSON WATER, INC. ARTICLE VIII:
DIRECTORS AND OFFICERS Section: 7

For and during the term of a Director of the Company, the Company shall indemnify such Director of the Company to the fullest extent possible against expenses, including attorneys' fees, judgments, fines, settlements and reasonable expenses, actually incurred by such person relating to his or her conduct as an active Director of the Company, except that the mandatory indemnification required by this sentence shall not apply (i) to a breach of the duty of loyalty to the Company; (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of the law; (iii) for a transaction from which such person derived an improper personal benefit; (iv) against judgments, penalties, fines and settlements arising from any proceeding by or in the right of the Company, or against expenses in any such case, where such person shall be adjudged liable to the Company, or (v) acts or omissions which occurred or arose after such Director's term ended. Any indemnification under this Article (unless ordered by a court) shall be made by the Corporation only as authorized in each specific case upon a determination that indemnification of the director is permissible under the circumstances because such person met the applicable standard of conduct set forth herein. Such determination shall be made by the Board of Directors by a majority vote of a quorum of disinterested directors who at the time of the vote are not, were not, and are not threatened to be made parties to the proceeding giving rise to the request for indemnification. The Corporation shall pay for or reimburse the reasonable expenses (including attorneys' fees) incurred by a director who is a party to proceeding in advance of the final disposition of the proceeding if [a] the director furnishes the Corporation a written affirmation of his or her good faith belief that he or she conducted himself in good faith, [b] the

director furnishes the Corporation with a written undertaking, executed personally or on his or her behalf, to repay the advance if it is determined that he or she did not conduct himself in good faith, which undertaking shall be an unlimited general obligation of the director or officer but which need not be secured and which may be accepted without reference to financial ability to make repayment, and [c] a determination is made by the body authorizing indemnification that the facts then known to such body would not preclude indemnification. The Board of Directors may exercise the Corporation's power to purchase and maintain insurance (including without limitation insurance for legal expenses and costs incurred in connection with defending any claim, proceeding, or lawsuit) on behalf of any person who is or was a director of the Corporation against any

liability asserted against him or her or incurred by him or her in any such capacity or arising out of his or her status as such, whether or not the Corporation would have the power to indemnify him or her against such liability under the provisions of this Article.

ARTICLE IX

Duties of Directors

Section 1. The board of directors, subject to restrictions of law, the articles of incorporation, and these bylaws, shall exercise all of the powers of the corporation; and, without prejudice to or limitation upon their general powers, it is hereby expressly provided that the board of directors shall have, and are hereby given, full power and authority in respect to the matters as hereinafter set forth to be exercised by resolution duly adopted by the board:

a. To approve membership applications and to cause to be issued appropriate certificates of membership. The board may make binding commitments to issue membership certificates and to permit the connection of properties to the system in the future in cases involving proposed construction or may issue such certificates prior to the commencement of the proposed construction.

b. To select and appoint all officers, agents, or employees of the corporation, remove such agents or employees of the corporation, prescribe such duties and designate such powers as may not be inconsistent with these bylaws, fix their compensation and pay for faithful services.

c. To borrow from any source, money, goods, or services and to make and issue notes and other negotiable or nonnegotiable instruments evidencing indebtedness of the corporation; to make and issue mortgages, deeds of trust, pledges of revenue, trust agreements, security agreements and financing statements, and other instruments evidencing a security interest in the assets of the corporation; and to do every act and thing necessary to effectuate the same.

d. To prescribe, adopt, and amend from time to time such equitable, uniform rules and regulations as, in its discretion, may be deemed essential or convenient for the conduct of the business and affairs of the corporation and the guidance and

control of its officers and employees, and to prescribe adequate penalties for the breach thereof.

e. To order, at least once each year, an audit of the books and accounts of the corporation by a competent public auditor or accountant. The report prepared by such auditor or accountant shall be submitted to the members of the corporation

at their annual meeting. Copies of such audits shall be submitted to such parties as may be required by other agreements.

f. To fix and alter the charges to be paid by each member for services rendered by the corporation to the member, including connection fees where such are deemed to be necessary by the directors, and to fix and alter the method of billing, time of payment, manner of connection, and penalties for late or nonpayment of the same. The board may establish one or more classes of users. All charges shall be uniform and nondiscriminating within each class of users.

g. To require all officers, agents, and employees charged with responsibility for the custody of any of the funds of the corporation to give adequate bonds, the cost thereof to be paid by the corporation; and it shall be mandatory upon the directors to so require.

h. To select one or more banks to act as depositories of the funds of the corporation and to determine the manner of receiving, depositing, and disbursing the funds of the corporation and the form of checks and the person or persons by whom the same shall be signed, with the power to change such banks and the person or persons signing such checks and the form thereof at will.

i. To levy assessments against the members of the corporation in such manner and upon such proportionate basis as the directors deem equitable, and to enforce collection of such assessments by the suspension of water service or other legal methods. The board of directors shall have the option to suspend the service of any member who has not paid such assessment within 30 days from the date of assessment was due, provided the corporation must give the member at least 15 days' written notice at the address of the member on the books of the corporation of its intention to suspend such service if the assessment is not paid. Upon payment of such assessments, any penalties applicable thereto, and a reconnection charge, if one is in effect, service will be promptly restored to such a member.

ARTICLE X

Duties of Officers

Section 1. Duties of president. The president shall preside over all meetings of the corporation and the board of directors, call special meetings of the board of directors, perform all acts and duties usually performed by an executive and presiding officer, and sign papers of the corporation as he may be authorized or directed to sign by the board of directors, provided the board of directors may authorize any person to sign any or all checks, contracts, and other instruments in writing on behalf of the corporation. The president shall perform such other duties as may be prescribed by the board of directors.

Section 2. Duties of the vice-president. In the absence or disability of the president, the vice-president shall perform the duties of the president provided, however, that in case of death, resignation, or disability of the president, the board of directors may declare the office vacant and elect his successor.

Section 3. Duties of the secretary. The secretary shall keep a complete record of all meetings of the corporation and of the board of directors. He shall attest the president's signature on all papers pertaining to the corporation unless otherwise directed by the board of directors. He shall serve, mail, or deliver all notices required by law and by these bylaws and shall make a full report of all matters and business pertaining to his office to the members at the annual meeting or at such other time or times as the board of directors may require. He shall keep the corporate seal and membership

certificate records of the corporation, and affix said corporate seal to all papers requiring seal. He shall keep a proper membership certificate record, showing the name of each member of the corporation and date of issuance, surrender, termination, cancellation, or forfeiture. He shall make all reports required by law and shall perform such other duties as may be required of him by the corporation or the board of directors. Upon the election of his successor, the secretary shall turn over to him all property belonging to the corporation that he may have in his possession.

Section 4. Duties of the treasurer. The treasurer shall have general charge and supervision of the books and records of the corporation. He shall perform such duties with respect to the finances of the corporation as may be prescribed by the board of directors. Upon the election of his successor, the treasurer shall turn over to him all property belonging to the corporation that he may have in his possession.

ARTICLE XI

Benefits and Duties of Members

Section 1. The corporation will install, maintain, and operate a main distribution pipeline or lines from the source of the water supply and service lines from the main distribution pipeline or lines to the property line or designated delivery point for each member of the corporation, at which points, designated as delivery points, meters to be purchased, installed, owned, and maintained by the corporation shall be placed. The cost of the service line or lines from the main distribution pipeline or lines of the corporation to the property line or designated delivery point for each member shall be paid by the corporation. The corporation also may purchase and install a cutoff valve in each service line from its main distribution line or lines, such cutoff valve to be owned and maintained by the corporation and to be installed on some portion of the service line owned by the corporation. The corporation shall have the sole and exclusive right to use of such cutoff valve. However, the provisions of this section shall not be construed to require the acquisition or installation of meters or cutoff valves where the directors determine under the circumstances of the system and the nature

of the membership that the use of either or both of such devices is impractical, unnecessary to protect the system and the rights of the membership, and/or economically not feasible.

Section 2. Each member will be required at his own expense to have dug a ditch for the connection of the service line or lines from the property line or designated delivery point for the member to his dwelling or other portion of his premises, and to purchase and have installed the portion of the service line or lines from his property line to the place of use on his premises. The member will maintain such portion of such service line or lines which shall be owned by the member, at his own expense. The corporation may, if the board of directors so determines, purchase the pipe for and install such portion of such service line or lines, the cost of which will, however, be paid by the individual members. In addition, each member shall pay such connection charge, if any, as may have been imposed by the board of directors before such member will be entitled to receive water from the system.

Section 3. Each member may be permitted to have additional service lines from the corporation's water system in the discretion of the board of directors upon proper application therefor

and the tender of payment not to exceed the then existing connection charge. The approval by the board of directors of additional service lines to an existing member may be made conditional upon such provisions as the board of directors determines necessary to protect the interest of other members and to allow for the orderly expansion and extension of the system to serve other property that may need service along the distribution lines of the system. Each service line shall connect with the corporation's water system at the nearest available place to the place of desired use by the member if the corporation's water system has sufficient capacity to permit the delivery of water through a service line at that point without interfering with the delivery of water through a prior service line. If the corporation's water system is inadequate to permit the delivery of water through a service line installed at such place without interfering with the delivery of water through a prior service line, then such service line shall be installed at such place designated by the corporation.

Section 4. Each member may be permitted to purchase from the corporation, pursuant to such agreement as may from time to time be provided and required by the corporation, such water as is needed by him for domestic, commercial, agricultural,

industrial, or other purposes as a member may desire, subject, however, to the provisions of these bylaws and to such rules and regulations as may be prescribed by the board of directors. Each member shall be entitled to have delivered to him through his service lines only such water as may be necessary to supply the needs of each member, including his family, business, agricultural, or industrial requirements. The water delivered through each service line may be metered separately; and the charges for such water may be determined separately, irrespective of the number of service lines owned by a member.

Section 5. In the event the total water supply shall be insufficient to meet all of the needs of the members or in the event there is a shortage of water, the corporation may prorate the water available among the various members on such basis as is deemed equitable by the board of directors, and may also prescribe a schedule of hours covering use of water for commercial, agricultural, or industrial purposes by particular members and require adherence thereto or prohibit the use of water for commercial, agricultural, or industrial purposes provided that if at any time the total water supply shall be insufficient to meet all of the needs of all of the members for domestic, livestock, commercial, agricultural, or industrial purposes, the corporation must first satisfy all of the reasonable needs of the members for domestic purposes before supplying any water for livestock purposes and must satisfy all of the needs of all of the members for domestic and livestock purposes before supplying any water for commercial or industrial purposes and, provided further, that where a member has more than one service line the corporation may cut off the flow of water to the nondomestic service lines until such time as the supply of water from the system is sufficient to meet the needs of all of the members for domestic, livestock, and garden purposes. During such periods of shutoff of additional service lines, there shall be no minimum fee charged to the members having such additional service lines; and the cost, if any, of resuming the flow of water to such additional service lines shall be borne by the corporation.

Section 6. The board of directors shall, with the consent of the USDA Rural Development and its successors, so long as it shall either hold any obligations or insure any financing of the system, prior to the beginning of each calendar year, determine the flat minimum monthly rate to be charged each member during the following calendar year for a specified quantity of water, such flat minimum monthly rate to be payable irrespective of

whether any water is used by a member during any month, the amount of additional charges, if any, for additional water which may be supplied the members, and the amount of penalty for late payments, and shall fix the date for the payment of such charges. A member to be entitled to the delivery of water shall pay such charges at the office designated by the corporation at or prior to the dates fixed by the board of directors. The failure to pay water charges and applicable sewer charges duly imposed shall result in the imposition of penalties as set forth in the rules and regulations.

Section 6a. Nonpayment within thirty days from the due date will result in the water being shut off without any notice thereof to such delinquent member. Upon the payment by the delinquent member of all water charges and applicable sewer changes, penalties thereon, and any reconnection charge, such member shall be entitled to resumption of the water supply. During the time of such suspension of water to a member, such member shall have no right to vote in the affairs of the corporation.

Section 7. The board of directors shall be authorized to require each member to enter into water users agreements which shall embody the principles set forth in the foregoing provisions of these bylaws.

ARTICLE XII

Distribution of Surplus Funds

Section 1. It is not anticipated that there will be any surplus funds or net income to the corporation at the end of the fiscal year after provisions are made for the payment of the expenses of operation and maintenance and the funding of the various reserves for depreciation, debt retirement, and other purposes, including those required by the terms of any borrowing transaction. The occurrence in subsequent fiscal years of surplus funds or net income above the requirements of the corporation as above mentioned, including, if any, a reserve for improvements and extension of the facilities shall be taken into consideration by the board of directors in determining the water rates to be charged the members.

Section 2. The organization will provide services substantially at cost. Dividends shall not be paid on the basis of membership or shares of stock in the organization. All funds

from whatever sources remaining at the end of the year in excess of those needed to meet current losses and expenses will be distributed to members in proportion to the amount of business done by them during the year subject to concurrence of the USDA Rural Development and its successors or will be retained for such purposes as retiring indebtedness incurred in acquiring assets, expanding the organization's services, maintaining reserves for necessary purposes or reducing subsequent year's water rates. However, the organization will maintain records from which each member's rights and interest in the retained funds and assets acquired with such funds in proportion to his business with the organization can be determined at any time. Required records for this purpose include Financial records that show the organization's revenues from all sources for each year and records, such as bills or receipts, showing the amount of each member's business annually with the organization.

Section 3. Upon dissolution, after paying off all debts and obligations, members and former members will be entitled to receive their equitable share of all the proceeds remaining to the extent practicable as reflected by the records.

ARTICLE XIII

Amendments

These bylaws may be repealed or amended by a vote of a majority of the members present at any regular meeting of the corporation, or at any special meeting of the corporation called for that purpose, except that so long as any indebtedness is held by or guaranteed by the USDA Rural Development and its successors, the members shall not have the power to change the purposes of the corporation so as to decrease its rights and powers under the laws of the State, or to waive any requirement of bond or other provision for the safety and security of the property and funds of the corporation or its members, or so to amend the bylaws as to effect a fundamental change in the policies of the corporation without the prior approval of the USDA Rural Development and its successors in writing.

We certify that the foregoing bylaws were duly adopted by the members on March 11, 2002, that the same are in full force and effect and have not been amended.

Given under our hands and the seal of the corporation, this _____ day of _____, 2002.

Secretary

President